



Office of Missouri State Auditor
Nicole Galloway, CPA

FOLLOW-UP REPORT ON AUDIT FINDINGS

City of St. Louis
Department of Public Utilities

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City of St. Louis - Department of Public Utilities

Follow-Up Report on Audit Findings

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NICOLE GALLOWAY, CPA
Missouri State Auditor

To the Honorable Mayor
and
Director of the Department of Public Utilities
City of St. Louis, Missouri

We have compiled the statuses of the audit report findings contained in Report No. 2010-34, *City of St. Louis, Department of Public Utilities*, issued in March 2010, as part of our current audit of the City of St. Louis. These results were determined by city officials and have not been audited. We will evaluate each status and the procedures implemented to address the related audit findings as appropriate in our upcoming audit of the Department of Public Utilities. The objectives of the follow-up compilation were to:

1. Provide status information from city officials for each recommendation. The status of each recommendation will be one of the following:
 - Implemented: Auditee fully implemented the recommendation, either as described in the report or in a manner that resolved the underlying issue.
 - In Progress: Auditee has specific plans to begin, or has begun, to implement and intends to fully implement the recommendation.
 - Partially Implemented: Auditee implemented the recommendation in part, but is not making efforts to fully implement it.
 - Not Implemented: Auditee has not implemented the recommendation and has no specific plans to implement the recommendation.
 - No Longer Applicable: The recommendation is no longer applicable.
2. Compile the information reported.

To obtain the status for each recommendation, we sent questionnaires to the Department of Public Utilities that included a brief summary of each finding and recommendation, and requested the status of each finding and a brief description of the steps taken or planned to implement the recommendation or reason(s) why the recommendation has not been implemented or is no longer applicable. This report is a compilation of the information provided, which we received in May 2018.

Audits of various officials and departments of the City of St. Louis are in process, and any findings and recommendations will be included in the subsequent reports.

A handwritten signature in black ink that reads "Nicole R. Galloway".

Nicole R. Galloway, CPA
State Auditor

City of St. Louis - Department of Public Utilities

Follow-Up Report on Audit Findings

Status of Findings

Finding Title: Water Division Administration

Finding Number: 1.A.

Finding: The city did not pay the division for water use at city owned facilities. In addition, water was also consumed, but not paid for, by the city for other purposes including fighting fires and watering right-of-way property.

Recommendation: The Water Division meter city water use or develop other water use estimates for city owned buildings, facilities, and other water-using features, and work with the city to ensure payment is received from the city for water used by the city.

Status of Finding: Not Implemented

Description of steps taken or planned to implement the finding or reason for not implementing or why finding is no longer applicable:

The city does not agree with this finding for the reasons stated in our response to the original audit. The city has installed meters for any new city connections and, as possible, for current city connections for tracking of water usage.

Contact Person: Curtis Skouby
Contact Phone Number: (314) 633-9012



City of St. Louis - Department of Public Utilities
Follow-Up Report on Audit Findings
Status of Findings

Finding Title: Water Division Administration

Finding Number: 1.B.

Finding: Large water rate increases had historically been implemented infrequently, rather than smaller, more frequent increases, which potentially created financial stress on individuals and families with low and fixed incomes. The division adequately projected system costs and was aware of the need to increase rates on a more timely basis; however, rate increases had not been submitted to the Board of Aldermen (Board) for approval. Discussions with division management indicated that, historically, rate increase requests to the Board had not been made until the increases were required to remain in compliance with revenue requirements of the division's bond covenants, cover increases in operating costs, and provide capital for system expansion and improvement.

Recommendation: The Water Division work with the city to ensure water rates are more evenly increased to allow customers to more easily absorb rate increases.

Status of Finding: Partially Implemented

Description of steps taken or planned to implement the finding or reason for not implementing or why finding is no longer applicable:

Water rates are set by city ordinance. The Water Division will continue to confer with the proper executive and rulemaking authorities on the proper frequency and amount of rate increases.

Contact Person: Curtis Skouby
Contact Phone Number: (314) 633-9012



City of St. Louis - Department of Public Utilities
Follow-Up Report on Audit Findings
Status of Findings

Finding Title: Water Division Administration

Finding Number: 1.C.

Finding: The division had not prioritized its list of system improvement projects to be funded with expected bond proceeds.

Recommendation: The Water Division prioritize the list of needed system improvement projects by critical need, cost, desirability of the effect on water production or delivery, and other relevant criteria.

Status of Finding: Partially Implemented

Description of steps taken or planned to implement the finding or reason for not implementing or why finding is no longer applicable:

The Water Division is in agreement with tracking the needs of system improvements, but does not agree with how the list is to be structured. The Water Division compiles and maintains a list of critical projects amounting to tens of millions of dollars. These projects are not rated or prioritized. Rather, all are important projects that should be completed at some point. Projects are matched to available funding and evaluated when additional funding is sought. Each project's need, benefit, and costs are center to the project selection process and funding.

Contact Person: Curtis Skouby
Contact Phone Number: (314) 633-9012



City of St. Louis - Department of Public Utilities
Follow-Up Report on Audit Findings
Status of Findings

Finding Title: Water Division Administration

Finding Number: 1.D.

Finding: The division had not obtained and reviewed the Collector of Revenue's settlement of fees to ensure excess water division fees had been returned to the division.

Recommendation: The Water Division obtain and review the Collector of Revenue's annual settlement to monitor the use and retention of the 4 percent collection fee retained from water bill collections.

Status of Finding: Partially Implemented

Description of steps taken or planned to implement the finding or reason for not implementing or why finding is no longer applicable:

The Water Division has asked for this and has not received it.

Contact Person: Curtis Skouby

Contact Phone Number: (314) 633-9012



City of St. Louis - Department of Public Utilities
Follow-Up Report on Audit Findings
Status of Findings

Finding Title: Collection and Billing Adjustment Procedures

Finding Number: 2.A.

Finding: Monies received by the Water Division were not logged or receipted to allow reconciliation of monies received to monies transmitted to the Collector of Revenue, and checks were not restrictively endorsed upon receipt.

Recommendation: The Water Division receipt or log all monies received and reconcile the receipt slips or log to transmittals and to payments recorded by the Collector of Revenue in the subsidiary accounts receivable ledgers. In addition, checks and money orders should be restrictively endorsed at the time of receipt.

Status of Finding: Implemented

Description of steps taken or planned to implement the finding or reason for not implementing or why finding is no longer applicable:

The Water Division has taken steps to address this finding. All payments that are received at the Water Division's customer service window are restrictively endorsed immediately. In addition, these payments are scanned front and back and the images are stored in our database in lieu of keeping a receipt log. A daily reconciliation is performed by the finance section between the transmittals received by the Collector of Revenue and payments posted to the Water Division's general ledger.

Contact Person: Perla Burk
Contact Phone Number: (314) 633-9090



City of St. Louis - Department of Public Utilities
Follow-Up Report on Audit Findings
Status of Findings

Finding Title: Collection and Billing Adjustment Procedures

Finding Number: 2.B.

Finding: The duties of reviewing and approving customer account adjustments were not adequately segregated from the duties of collecting and receiving customer payments.

Recommendation: The Water Division segregate the duties of receiving customer payments and making customer account adjustments and ensure water customer account adjustment reports are reviewed by persons independent of the transaction, the reviews are documented, and the adjustment reports are organized and retained for future reference.

Status of Finding: Implemented

Description of steps taken or planned to implement the finding or reason for not implementing or why finding is no longer applicable:

The Water Division has taken steps to address this finding. Segregation of duties for receiving customer payments and making customer account adjustments has been implemented. All adjustments are reviewed and approved by the respective employee's supervisor.

Contact Person: Perla Burk
Contact Phone Number: (314) 633-9090



City of St. Louis - Department of Public Utilities
Follow-Up Report on Audit Findings
Status of Findings

Finding Title: Collection and Billing Adjustment Procedures

Finding Number: 2.C.

Finding: Accounting duties and responsibilities for managing non-customer accounts receivable and water customer deposits were not adequately segregated.

Recommendation: The Water Division adequately segregate accounting duties.

Status of Finding: Implemented

Description of steps taken or planned to implement the finding or reason for not implementing or why finding is no longer applicable:

The Water Division has taken steps to address this finding. Segregation of accounting duties has been implemented. All refunds that are processed by the Account Clerk II are reviewed by the Accountant I and approved by the Accounting Manager prior to processing the refund.

Contact Person: Perla Burk
Contact Phone Number: (314) 633-9090



City of St. Louis - Department of Public Utilities
Follow-Up Report on Audit Findings
Status of Findings

Finding Title: Collection and Billing Adjustment Procedures

Finding Number: 2.D.

Finding: Collections were not adequately safeguarded when they were transmitted to the Collector of Revenue's office. Receipt records were not prepared for water bill collections received by the division. In addition, the monies transmitted were not verified and signed by the Collector of Revenue's office at the time of transmittal, and monies were not secured in a locked bank bag during transmittal.

Recommendation: The Water Division obtain receipt slips from the Collector of Revenue's office to document monies transmitted and ensure collections are transmitted in a secured container.

Status of Finding: Implemented

Description of steps taken or planned to implement the finding or reason for not implementing or why finding is no longer applicable:

The Water Division has taken steps to address this finding. All payments that are received at the Water Division's customer service window are scanned (front and back) upon receipt. We do not accept cash at the window. A transmittal form is included with the transmittal that contains a listing of the check or money order amount of each individual payment. This form shows the total number of payments and total amount of payments. The Collector of Revenue's office returns the transmittal form with a signature the next day after verifying that the transmittal form, the contents of the transmittal pouch, and the payment postings agree.

Contact Person: Perla Burk
Contact Phone Number: (314) 633-9090



City of St. Louis - Department of Public Utilities
Follow-Up Report on Audit Findings
Status of Findings

Finding Title: Inventory Controls and Procedures

Finding Number: 3.A.

Finding: Procedures were not adequate to ensure inventory balances and reorder quantities were maintained to provide only for current needs and prevent overstocking or stocking of obsolete items. The division's inventory records indicated a number of items with large quantities in stock relative to annual use information. Division personnel indicated the inventory management system had the capability to define reorder quantities and required stock levels based on inventory quantity data and order information parameters for the items; however, this information had not been effectively utilized to make inventory decisions. Finally, division personnel indicated periodic reviews of inventory balances were not performed to identify items on hand which were overstocked or obsolete and needed to be offered for sale at the city's surplus auction.

Recommendation: The Water Division utilize the inventory system management features to monitor inventory item order quantities and stock on hand. In addition, the division should review inventory on hand for overstocked or obsolete items which should be offered for sale at the city's surplus auction.

Status of Finding: Partially Implemented

Description of steps taken or planned to implement the finding or reason for not implementing or why finding is no longer applicable:

Storeroom personnel review inventory on hand to avoid overstocking and ensure that they have the stock needed to support our operations. In a rare case in which obsolescence occurs because of a procedure or engineering change, obsolete items are taken out of inventory and sold as scrap or sold through the city's surplus system. Because of our aging infrastructure, slow-moving items are kept in the event that they are needed during repairs.

Contact Person: Perla Burk
Contact Phone Number: (314) 633-9090



City of St. Louis - Department of Public Utilities
Follow-Up Report on Audit Findings
Status of Findings

Finding Title: Inventory Controls and Procedures

Finding Number: 3.B.

Finding: Documentation was not maintained to show inventory balance adjustments were adequately investigated to determine the possible reasons for any inaccurate inventory balances. Discrepancies between annual physical counts and the accounting system's quantity were initially investigated by performing a recount. After the recount verified the actual balance, the accounting system's quantity was adjusted without any documented attempt to identify the reasons for the discrepancy.

Recommendation: The Water Division improve the documentation of any investigation of significant inventory discrepancies and implement procedures to prevent similar issues in the future.

Status of Finding: Implemented

Description of steps taken or planned to implement the finding or reason for not implementing or why finding is no longer applicable:

The Water Division has taken steps to address this finding. The storeroom and finance section continuously work together to investigate inventory discrepancies. The Water Division's perpetual inventory system does not allow negative inventory. Therefore, discrepancies are investigated to allow our finance section to post storeroom issues (variances) within the subsidiary ledger. Additionally, a full physical inventory count is performed annually.

Contact Person: Perla Burk
Contact Phone Number: (314) 633-9090



City of St. Louis - Department of Public Utilities
Follow-Up Report on Audit Findings
Status of Findings

Finding Title: Inventory Controls and Procedures

Finding Number: 3.C.

Finding: Procedures to monitor the pipeyard's fuel inventory and use reports were not adequate. There were no procedures to reconcile the beginning and ending fuel balances to records of purchases and uses. Although the pipeyard fuel storage tanks provided readings on demand, inventory balances were not periodically reconciled to records of fuel deliveries and fuel dispensed to division vehicles and equipment. In addition, although a fuel use report was obtained from the city's Equipment Services Division and reviewed by the water distribution superintendent, the review procedures and objectives were not clearly defined and the review was not documented.

Recommendation: The Water Division implement procedures to periodically reconcile fuel inventory balances to records of fuel deliveries and fuel dispensed. In addition, procedures and objectives should be developed for the review of fuel use reports and supervisory reviews should be documented.

Status of Finding: In Progress

Description of steps taken or planned to implement the finding or reason for not implementing or why finding is no longer applicable:

The Water Division is now connected to the city's Equipment Service Division's (ESD) fuel monitoring system. To get fuel, a Water Division employee must scan his/her identification badge and the vehicle's fob before fuel can be dispensed. This is recorded by the system along with date, time, and quantity of fuel dispensed. A problem has developed in the communication link between the fueling station in our distribution yard and the monitoring system at ESD, requiring employees to manually record this information. Resolution of the problem has been further delayed due to construction activity around the fueling station. We are currently recording the information manually. The two fuel stations at the two treatment plants are in a similar situation where monitoring stations have been installed, but there are connectivity issues between the stations and the monitoring system. The information is currently being recorded manually at these two locations.

The fuel purchases are recorded as direct period expenditures within the Water Division's general ledger.

Contact Person: Perla Burk
Contact Phone Number: (314) 633-9090



City of St. Louis - Department of Public Utilities
Follow-Up Report on Audit Findings
Status of Findings

Finding Title: Vehicle Controls and Procedures

Finding Number: 4.

Finding: The Water Division did not actively monitor the usage of the division's 180 vehicle fleet (including heavy equipment) and, as a result, the fleet may have been larger than necessary. According to division officials, usage information was tracked at one time, but issues existed with the new system implemented by the city which did not allow all vehicle information tracked by the city's service department to be readily communicated to the division. The division did not request the information from the city's service department, but attempted to keep a separate log of vehicle usage. However, our review of this log showed it was not complete, contained various inaccuracies, and was not updated in a timely manner.

Recommendation: The Water Division study vehicle utilization and develop justification for the number of transportation and water distribution service vehicles required to conduct division activities. The Water Division should reduce the fleet size if underutilized or unneeded vehicles are identified.

Status of Finding: Not Implemented

Description of steps taken or planned to implement the finding or reason for not implementing or why finding is no longer applicable:

The Water Division does not understand the basis for this finding. The industry trend is to use fewer people to accomplish a given task. This leads to a higher vehicle-to-employee ratio. The Water Division has and is taking steps toward a better record system that will allow us to better track vehicles.

Contact Person: Curtis Skouby
Contact Phone Number: (314) 633-9012



City of St. Louis - Department of Public Utilities
Follow-Up Report on Audit Findings
Status of Findings

Finding Title: Information System Controls and Procedures

Finding Number: 5.A.

Finding: Password controls of the general ledger system did not require active users to change passwords periodically. In addition, system access security violation logs were produced by the system but were not monitored or reviewed for attempts at unauthorized data access.

Recommendation: The Water Division ensure all user passwords expire and users are prompted to change passwords periodically. In addition, security violation logs should be monitored or reviewed for attempts at unauthorized data access.

Status of Finding: Implemented

Description of steps taken or planned to implement the finding or reason for not implementing or why finding is no longer applicable:

The Water Division has taken steps to address this finding. System passwords automatically expire on a set schedule requiring employees to change passwords. Violation logs are reviewed for attempts at unauthorized data access.

Contact Person: Keith Moore
Contact Phone Number: (314) 633-9048



City of St. Louis - Department of Public Utilities
Follow-Up Report on Audit Findings
Status of Findings

Finding Title: Information System Controls and Procedures

Finding Number: 5.B.

Finding: Backup tapes for the non-financial system were not stored at an offsite location.

Recommendation: The Water Division store all system back up tapes at an offsite location.

Status of Finding: Implemented

Description of steps taken or planned to implement the finding or reason for not implementing or why finding is no longer applicable:

The Water Division is backing up systems at offsite locations.

Contact Person: Keith Moore
Contact Phone Number: (314) 633-9048



City of St. Louis - Department of Public Utilities
Follow-Up Report on Audit Findings
Status of Findings

Finding Title: Overtime Pay Controls and Procedures

Finding Number: 6.

Finding: The Water Division paid approximately \$1.7 million in overtime during fiscal year 2008, and had not performed a study to determine the optimum use of overtime versus hiring additional employees.

Recommendation: The Water Division perform an analysis to determine if additional staffing would help reduce the amount of overtime paid.

Status of Finding: In Progress

Description of steps taken or planned to implement the finding or reason for not implementing or why finding is no longer applicable:

The Water Division is in the process of having a study of its overtime performed as recommended.

Contact Person: Curtis Skouby

Contact Phone Number: (314) 633-9012